BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CFTLE

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Integrate Their Gas Transmission Rates, Establish Firm Access Rights, and Provide Off-System Gas Transportation Services.

Application 04-12-004

COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED DECISION OF ALJ WONG AND THE ALTERNATE PROPOSED DECISION OF COMMISSIONER BROWN

THE UTILITY REFORM NETWORK

711 Van Ness Ave., #350 San Francisco, CA 94102 Phone: (415) 929-8876, x.302

Fax: (415) 929-1132 Email: mflorio@turn.org

Michel Peter Florio Senior Attorney

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SUMMARY OF RECOMMENDATIONS

	<u>Page</u>
I. The Interaction of the JP with FAR Requires Clarification	1
II. The Sempra Utilities Have Requested \$3.5 Million for Implementation Costs and There Is No Reason to Give Them \$2 Million More	7
III. The PD Is Correct in Retaining the Peaking Rate	8
Appendix: TURN's Proposed Changes to the PD	

COMMENTS OF TURN ON THE PD AND APD

Pursuant to Article 14 of this Commission's revised Rules of Practice and Procedure, The Utility Reform Network (TURN) hereby submits its comments on the Proposed Decision (PD) of Administrative Law Judge (ALJ) Wong and the Alternate Proposed Decision (APD) of Commissioner Brown in this proceeding. The PD and the APD differ only with respect to their treatment of the peaking rate, which the PD would retain and the APD would eliminate. TURN supports the PD on this issue, for the reasons stated below and in our testimony and briefs in this proceeding.

TURN applauds ALJ Wong for preparing, on an expedited basis, a clear and generally reasonable PD that grapples with a myriad of difficult and complex issues. While TURN does not necessarily agree with the PD's resolution of each of the contested issues, our comments here will focus on some of the more technical questions raised by the PD's attempt to meld the Joint Proposal (JP) with the overall Firm Access Rights (FAR) framework proposed by the Sempra Utilities. While TURN believes that such a hybrid program could function effectively, some clarifications and refinements to the PD are needed to make the implementation process go as smoothly as possible and to avoid significant controversy over the compliance filings that the Sempra Utilities are ordered to submit within 45 days.

I. The Interaction of the JP with FAR Requires Clarification

TURN appreciates that the PD has adopted large portions of the JP, which TURN supported in conjunction with a broad coalition of LNG developers, marketers and large gas consumers. The details of integrating the JP principles into the FAR framework now appear to be somewhat more complicated than TURN had originally anticipated however.

One of the fundamental objectives of the JP was to establish a process that would allow LNG developers (and potentially other sources of new supply) to move forward *expeditiously* to obtain access to the Sempra Utilities' system, by funding the necessary costs of constructing new or expanded receipt point capacity on an incremental cost basis, and thereby securing priority use of the capacity that they have paid to create. At pages 70-71, the PD recognizes the value of the JP's "first-in-time" approach that allows a project sponsor to move forward *without waiting* for a later project to catch up.

TURN is concerned, however, that the PD's subsequent discussion of the adopted FAR program does not specifically discuss the ability of a "Funding Party" to move forward **NOW** with the process of entering into a Collectible System Upgrade Agreement (CSUA) under Rule 39 and obtaining the associated priority scheduling rights. Indeed, at the bottom of page 72, the PD states that funding options set forth in the JP shall be implemented by means of Special Conditions 55 and 56 in the proposed G-RPA tariff. Those provisions, however, appear in the tariff section that describes Step 3 of the proposed Open Season process.

From the discussion on pages 70-71, TURN interprets the PD's intent to be to allow immediate execution of a CSUA by a project developer, who could then fund the necessary upgrades and, ultimately, receive an allocation of FARs. This is nowhere explicitly stated in the PD, however, and the absence of such language will likely lead some parties to argue that a potential Funding Party *must wait* for Step 3 of the Open Season, which will not take place for over a year, in order to sign a CSUA and start the necessary construction of new receipt point capacity. TURN does not find anything in the text of the PD that would support such a delay in securing new gas supplies for

California. Nonetheless, we strongly urge modification of the PD, to add language (provided in the appendix to these comments) that would state clearly and unambiguously that project sponsors can *act now* to execute a CSUA, pay the incremental costs for new or expanded receipt point capacity, and ultimately obtain FARs when the Open Season process commences. Such action would be entirely consistent with the PD's language on pages 70-71, and fully consistent with the references to D.06-09-039 that are cited there.

TURN is also not convinced that Special Conditions (SCs) 55 and 56 fully capture the intent and effect of "the second and third funding options described in Exhibit A of Exhibit 85," which the PD appears to support at page 72. For example, SC 55 states that: "once capacity is awarded for new receipt point capacity, Utility will request an upfront payment of the estimated costs prior to commencing construction of the required facility enhancements, with this payment charged to all 15-year contract holders on a pro rata basis" (emphasis added). The highlighted language appears to refer to capacity awards in Step 3 of the Open Season, not to advance funding under Rule 39 that would provide a Step 1 set-aside. Moreover, it is not entirely clear whether SCs 55 and 56 contemplate the second funding option described on page 5 of Exhibit A to Exhibit 85 (the JP), or only the third option.

TURN is not attempting to insert actual tariff language into the PD, but rather to obtain a clear and unambiguous statement of *policy* that authorizes the process contemplated by the JP, in which project sponsors could move forward **NOW** to initiate the steps involved in funding new or expanded receipt point capacity, *in advance* of the Open Season (in which they could then obtain actual FARs). If this basic point can be clarified, then the implementing tariff language can be worked out in the advice letter

process. Absent such a clear policy statement, however, TURN is gravely concerned that the implementation phase will be fraught with continuing controversy that may ultimately frustrate this Commission's and the State's goals.

Another aspect of the integration of the JP principles into the FAR framework also requires clarification. At pages 73-74, the PD describes four types of scheduling rights situations that will require conversion into the FAR framework. With respect to a party that funds *displacement* capacity at either Otay Mesa or elsewhere on the system on an incremental cost basis, the PD provides that the funding party "shall receive a Step 1 set-aside for the capacity that the funding party paid for, but that set-aside shall be *subject to nominations at other receipt points in the same transmission zone*" (emphasis added). This language appears to confuse the nature of the "Scheduling Right" provided under the JP with the FAR rights provided under the adopted framework.

Under the JP, a party that funded new receipt capacity on a displacement basis would have received scheduling priority at its specific receipt point, but those rights would have been subject to pro-rationing along with nominations at other receipt points in the same zone. Under FAR, the available scheduling rights are *limited to the total takeaway capacity of the zone*, for example, 1210 MMcf/d in the case of the Southern Zone. If a Funding Party that pays for displacement capacity at Otay Mesa obtains a Step 1 set-aside of FAR rights in the Southern Zone, there is no role left for pro-rationing, because there are only as many FARs in the zone as there is takeaway capacity. A FAR is simply not a FAR if it is subject to pro-rationing (except in the case of system maintenance or *force majeure*).

TURN suspects that the intent of the PD may have been to indicate that a party funding displacement capacity would be *eligible* to obtain a Step 1 set-aside, assuming that it was willing to pay the five cents per decatherm FAR charge, *in addition to* the incremental cost of the displacement capacity. If the Funding Party were *not* willing to pay for FAR rights, it would still have first priority use of the capacity that it had funded at Otay Mesa, but it would be subject to scheduling limitations if FAR holders at other receipt points chose to fully exercise those rights. Such a system would make perfect sense, because the Funding Party would only have paid for access on a displacement basis. In order to assure unimpeded flow all the way to the customer or city gate, the party would need to pay for FAR rights as well, because the service it was seeking would require the use of facilities beyond those for which the Funding Party had already paid.

In the case of *expansion* capacity, the Funding Party will have paid for facilities that are sufficient to increase the total takeaway capacity of the entire system. TURN believes that a party that pays for these more costly system expansions should *automatically* receive the right to use the capacity for which it has paid. While the PD would provide such a party with a full Step 1 set-aside for the associated capacity, that the party would *also* have to pay the additional five-cent FAR charge in order to effectuate those rights (PD, p.94). This looks like a double payment from TURN's perspective. If the Funding Party, and not the general body of ratepayers, has fully funded sufficient facilities to deliver its supplies on an expansion basis, there is no real basis for charging that party an additional five cents that would then be credited back to customers. In contrast to the displacement capacity scenario, the Funding Party in this instance is not relying upon facilities beyond those for which it paid in order to deliver its

gas. Thus, rather than a Step 1 set-aside, TURN submits that a party funding expansion capacity should receive the right to use the capacity for which it has paid *without* being subject to an additional FAR charge. In essence, this fully third-party funded capacity should be "taken off the top" prior even to Step 1 of the FAR Open Season. This differential treatment of displacement and expansion capacity would create a real incentive for Funding Parties to pay for expansion capacity in the first instance, something that the PD apparently wants to encourage. It is also equitable, given the typically much higher cost of funding expansion capacity.

Adoption of TURN's suggested change would also mitigate the PD's concern (pp.71, 103) regarding the provision in the JP that would allow a Funding Party to *choose* whether to fund displacement or expansion capacity. A party that funded only displacement capacity would receive lesser rights than one who funded expansion capacity, and would have to pay the FAR charge in order to obtain equivalent firm rights. This creates the proper incentives, and seems fair given the difference in costs between expansion and displacement capacity. If a party only wanted to pay for displacement capacity and the Commission determined that expansion capacity might be more appropriate (as suggested on p.103), it could direct the utility to make the associated FAR rights available for bid in Step 3 of the Open Season. If the Funding Party truly wanted firm rights, it might very well choose to fund expansion capacity under those circumstances, rather than take the risk that others would obtain the firm rights that it needs to serve its customers.

The PD's rejection of one other element of the JP (p.72) – the option for a Funding Party to "construct the necessary facilities and transfer ownership and operating

responsibilities" to the utility -- appears to be based on a misunderstanding. When the panel of witnesses presenting the JP took the stand, they attempted to clarify that this option refers only to facilities *up to the point of interconnection* with the utility system, and "does not contemplate construction by the funding party of facilities on the existing utility system" (Tr. 12/1926:10 – 1927:2). TURN believes that this clarification addressed the concerns expressed by the Sempra Utilities in their rebuttal testimony, and that the proposal as clarified is no longer objectionable from the utilities' standpoint.

Finally, the JP provided that under Option 3 a Funding Party could enter into a contract with the utility of up to 20 years, subject to payment of a monthly facilities charge that would fully amortize the cost of the necessary system upgrades. At pages 72-73 and 102, the PD provides for a contract term of up to 15 years. TURN urges the Commission to allow the longer 20-year term as an option for Funding Parties. While many parties may prefer a shorter amortization schedule, some expansions may be quite costly, and the Funding Party might prefer the longer 20-year term. There appears to be no *a priori* reason for denying this option to those parties who want it.

II. The Sempra Utilities Have Requested \$3.5 Million for Implementation Costs and There Is No Reason to Give Them \$2 Million More

As noted at page 105 of the PD, the Sempra Utilities requested authority to book \$3.5 million of FAR implementation costs to a FAR Memorandum Account. In Exhibit 15 at page 34, company witness Schwecke testified that this amount was needed "to implement the services outlined in this application." Those services explicitly included a City Gate Pooling service (Ex.15, Section F.5). Despite this rather clear request, the PD at page 108 provides that: "To the extent the costs of implementing the pooling service

are not already included in the FAR system implementation costs," the utilities are authorized to track and recover another \$2 million.

There is absolutely no reason to give the Sempra Utilities another \$2 million to implement a service that was already clearly included within the scope of the programs for which they requested only \$3.5 million total. This appears to be a simple misunderstanding in the PD that should be corrected. TURN has little doubt that the utilities can find a way to spend the extra money, but this Commission does not need to give the companies more than they have even asked for.

III. The PD Is Correct in Retaining the Peaking Rate

TURN submits that the section of the PD addressing the peaking rate issue is well reasoned and fully supported by the record. The APD's discussion of the peaking rate, on the other hand, is rife with hyperbole and unsupported assertions, and reflects a remarkable lack of reasoned analysis. The PD should be adopted instead.

From the very outset, the APD's discussion of the peaking rate issue misses the mark. At pages 119-120, the APD states:

When the RLS tariff and its successor, the peaking rate tariff, were adopted, the purpose behind both tariffs was to narrow the regulatory gap between the rate design of the interstate pipelines, which uses a straight fixed variable rate structure, and SoCalGas' volumetric rate structure. By narrowing the regulatory gap, the peaking rate should have encouraged more competition between SoCalGas and the interstate pipelines, and allowed more companies to use both the competing pipeline and SoCalGas. Instead, as discussed below, the peaking rate has broadened the regulatory gap and acted as a barrier to competition.

The PD's discussion makes no sense. In stating that the peaking rate *should have* "allowed more companies to use both the competing pipeline and SoCalGas," the APD apparently simply *assumes* that such an outcome would be the most economic outcome

for the customer. But with a cost-based peaking rate, it is up to the potential partial bypass customer to make that decision, and the fact that few customers have chosen to do so simply proves that the APD's assumption is wrong – when faced with the true cost of taking baseload service from an interstate pipeline and peaking service from the utility, customers have chosen either to stay entirely with the utility *or* to fully bypass the system and take service elsewhere. This certainly does not prove that the peaking rate is a problem; it simply demonstrates that the contemplated partial bypass was uneconomic.

The APD asserts that the peaking rate "has acted as a barrier to competition," but true competition would be based on the relative costs of the competing services. Forcing the utility's other customers to *subsidize* the partial bypass customers' peaking usage is not competition – it is simply a subsidy. The fact that only a single customer has signed up to take peaking service from SoCalGas does not in any way demonstrate that the tariff "punishes those companies who are considering partial bypass." If the rate is based on the utility's cost of providing peaking service – as it is – then there is no punishment at all, but rather an accurate price signal to the customer. The fact that such a signal has not resulted in very many customers choosing the service does not make the rate anti-competitive. Rather, it means that the potential partial bypass is itself uneconomic.

The APD is also absurd in its suggestion (p.121) that the peaking rate *broadens* the "regulatory gap" between the straight fixed-variable rate designs of the interstate pipelines and the all-volumetric rates charged by the utility. As the APD itself observes: "The peaking rate requires the bypassing company to pay the monthly customer charge, even if that company does not use SoCalGas during the month." That is precisely what "narrowing the regulatory gap" means, because that is exactly what the interstate

pipelines' rate structures require – payment regardless of actual usage in a given month. If that makes the peaking rate anti-competitive, then the rates of the pipelines are *even more anti-competitive*, because they recover a larger percentage of fixed costs in the reservation charge than does the peaking rate!

The APD contains further nonsensical statements. For example, at page 121, the APD states that: "If the peaking rate was truly intended to narrow the regulatory gap, customers would be using both the competing pipeline and SoCalGas to fulfill all of their gas needs." Again, there is no factual, or even theoretical, basis for this assumption. WHY would an appropriate peaking rate lead to this result? The APD simply doesn't say. It merely *assumes* that non-use of the tariff means that it is somehow wrong. A completely valid contrary assumption would be that it is in fact more economic for a customer to take full service from either the pipeline or the utility, but not partial service from both. That is in fact what customers have done. To say that the "peaking rate has not accomplished what it was originally intended to do" (APD, p.121) presumes that the intent of the rate was to *encourage* partial bypass of the utility. In reality, the Commission's intent has been to send a proper economic signal to the customer. The fact that such signal has not resulted in partial bypass only represents a "problem" if one starts from the premise that partial bypass is inherently a good thing. This Commission has NEVER embraced such a bizarre rational in its decisions.

The APD also asserts that despite the fact (which it acknowledges on page 122) that elimination of the peaking rate will result in a migration of large customers to competing pipelines, the impact on the remaining captive customers will not be severe, because more gas supplies will come to California if more bypass pipelines are built.

This argument ignores the fact that most of the gas to serve core customer needs is *purchased in the supply basins* and not at the border or within California. Even if more pipeline bypass were to reduce prices *within California*, which is debatable, it could very well have the *opposite effect* on prices in the supply basins where the core gets most of its gas. Certainly, there is no reason to *assume* that prices in the San Juan basin or the Rocky Mountains will be reduced because of greater capacity to deliver gas to California. Typically, the addition of pipeline capacity *raises prices* in the supply area and reduces prices in the delivery area. Since the core buys in the supply basins, it will be hurt, not benefited, by the addition of additional bypass pipelines.

The APD's cavalier suggestion (p.123) that SoCalGas can stem the tide of migration to competing pipelines by negotiating discounted long-term transportation contracts also misses the point. *Such rate discounts are paid for by other customers on the gas system*! Thus, even if SoCalGas manages to "compete" by discounting its rates, the captive customers on its system still suffer increased rates.

The APD is wrong on all counts and, if adopted, would simply assure higher rates for the vast majority of SoCalGas customers who have no viable bypass options. The APD represents bad policy, and would run counter to a decade of Commission efforts to protect captive ratepayers from uneconomic partial bypass. It must be rejected.

Respectfully submitted,

THE UTILITY REFORM NETWORK

November 20, 2006

By: ____/s/____

Michel Peter Florio Senior Attorney

TURN's Proposed Changes to the Text of the PD

Beginning at page 71:

There are two features in the Joint Proposal that we do not care for. The first is the provision which allows the funding party to decide whether the additional capacity should be built as displacement capacity or expansion capacity. The Joint Proposal lets the funding party make this determination. SCE points out that expansion capacity should be preferred over displacement capacity because expansion capacity results in more gas supplies entering the marketplace. We agree with SCE that there may be situations where the utilities or the Commission should have input in deciding whether new or expanded capacity should be built on a displacement capacity or expansion capacity basis. Also, the FAR proposal and the unbundled FAR proposal have a workable solution in Step 3, as discussed later in this decision, for allowing market participants to bid on new capacity. Therefore, we believe that a party that is funding only displacement capacity should have the option to obtain firm rights through a set-aside in Step 1 of the open season, but only if it is willing to pay the FAR charge in addition to the incremental cost of the displacement expansion. For parties willing to fund expansion capacity, they will receive firm rights in advance of the open season, without payment of an additional FAR charge. This will create an incentive for funding parties to fund expansion rather than displacement capacity. If this Commission believes that expansion capacity should be considered and the funding party is only willing to pay for displacement capacity, then FAR rights for expansion capacity will be made available to all bidders in Step 3 of the open season.

- 71 -

The other provision that we do not care for is the first funding option that is described in the Joint Proposal. SDG&E and SoCalGas point out that it is unlikely that a funding party will "construct the necessary facilities and transfer ownership and operating responsibilities to SoCalGas or SDG&E." (Exhibit 85, Exhibit A, page 5.) If a funding party wants to undertake such an endeavor, the utility would have to be directly involved in all aspects of the planning and construction of the facilities. However, the sponsors of the JP clarified that this option would only apply to facilities up to the point of interconnection with the existing utility system. With that understanding, we will allow parties who construct such facilities to transfer ownership and operating responsibilities to the utility if the utility agrees to such an arrangement.

Due to the features of the Joint Proposal that we like and don't like, the Joint Proposal should not be adopted without some changes. We will, however, incorporate many of the aspects of the Joint Proposal into the FAR system, as described below. Most importantly, we agree with the fundamental objective of the JP that project sponsors be allowed to act now to execute a CSUA under Rule 39, pay the incremental costs for new or expanded receipt point capacity, and obtain firm rights for use of the capacity that they have paid to create, subject to the terms of this decision. We believe that our adoption of this key principle will provide the necessary certainly for potential project developers to move forward with obtaining

<u>financing for their projects and beginning construction.</u> The <u>other</u> features that we will incorporate into the FAR system are the following.

First, the procedure described in the first three sentences of the section titled "Determination of Facilities, Costs, and Character of New Takeaway Capacity" in Exhibit A of Exhibit 85 will be incorporated into the FAR system. As for "access to all cost and engineering information," we agree with those parties who request that SDG&E and SoCalGas should provide copies of this kind of information to the requesting parties. The utilities are concerned that this information may be sensitive and that copies should not be given out. We believe, however, that such concerns and adequate safeguards can be provided in the "agreed upon protective order" that binds the requesting party and the utility. The fourth sentence of that section, which allows the funding party to decide between displacement and expansion capacity, will only be allowed under the conditions described above.

Second, <u>we approve of</u> the second and third funding options described in Exhibit A of Exhibit 85 <u>for parties that choose to fund capacity expansions in advance of an open season. The first funding option will only be permitted as described above.

are reflected in similar provisions in Special Conditions 55 and 56 of the proposed Schedule G-RPA in Exhibit 15. The two funding options described in the proposed Schedule G-RPA shall be used. As for the <u>2015</u>-year contract term that is referenced in the <u>Joint Proposal proposed schedule</u>, that term may be for a shorter period - 72 -</u>

of time so long as all the construction costs are fully amortized over the shorter term. The determination as to whether the additional capacity should be built on an expansion capacity or displacement capacity basis is described <u>above and again</u> later in this decision.

Third, the logic and theory behind the "Scheduling Rights for Expansion Capacity," the "Scheduling Rights for Displacement Capacity," and the "Scheduling Right Associated with Receipt Point Capacity Additions in the Southern Zone" that appear in Exhibit A of Exhibit 85 shall be incorporated into the open season process of the FAR system in the following manner.³⁹

If a funding party builds new capacity or expands existing capacity on a displacement capacity basis at Otay Mesa, up to 700 MMcfd, and the funding party pays for it on an incremental cost basis, the funding party shall be eligible to receive a Step 1 set aside for firm rights in Southern Zone at Otay Mesa in the open season for the amount of capacity that the funding party paid for. The capacity shall be subject to the scheduling right limitations described in section 7.b. of Exhibit A of Exhibit 85. However, if the funding party is not willing to pay the FAR charge, its scheduling rights will apply only at the Otay Mesa receipt point and will have a lower priority than those holding FAR rights at other receipt points in the Southern Zone.

³⁹ These three sections in Exhibit A of Exhibit 85 suggest that four types of scheduling right situations may be encountered that will require conversion from a scheduling right into a FAR set-aside, or other step in the adopted FAR system.

⁴⁰ This is an appropriate set-aside because the funding parties agree that rolled-in capacity shall not apply to this Otay Mesa displacement capacity of up to 700 MMcfd. Such a result is also consistent with the general proposition that if a customer is required to pay for the construction of new facilities, that they should have a higher priority access to the use of those facilities (D.06-09-039, page 80.), and with the incremental cost approach in D.04-09-022 at page 66.

If a funding party builds new capacity or expands existing capacity on an expansion capacity basis, and the funding party pays for it on an incremental

cost basis, the funding party shall receive a Step 1-set-aside for the capacity that the funding party paid for in advance of the open season, and will not be subject to an additional FAR charge. This exception is reasonable because expansion capacity is typically more expensive than displacement capacity, and the addition of expansion capacity increases the delivery capability of the entire system.

If a funding party builds new capacity or expands existing capacity on a displacement capacity basis, and the funding party pays for it on an incremental cost basis, the funding party shall be eligible to receive a Step 1 set-aside in the appropriate zone for the amount of capacity that the funding party paid for, but that set-aside shall be subject to nominations at other receipt points in the same transmission zone. However, if the funding party is not willing to pay the FAR charge, its scheduling rights will apply only at that receipt point and will have a lower priority than those holding FAR rights at other receipt points in the same zone.

If a funding party builds new capacity or expands existing capacity, and the costs of those facilities required to add new or expanded receipt point capacity receive rolled-in rate treatment by the Commission, all ratepayers shall have access to that capacity through Steps 1, 2 and 3 of the open season process.⁴³

And fourth, to the extent the "Definitions" in Exhibit A of Exhibit 85 are needed to explain or clarify those provisions of the Joint Proposal which we incorporate into the FAR system, those definitions shall be incorporated into the FAR system.

SDG&E and SoCalGas shall be directed to incorporate the features of the Joint Proposal that we have adopted, as discussed above, into the FAR system that we discuss in more detail below.

- ⁴¹ This is consistent with D.06-09-039 at page 80 and D.04-09-022 at page 66.
- ⁴² This is consistent with D.06-09-039 at page 80 and D.04-09-022 at page 66.
- ⁴³ Such a result is consistent with D.04-09-022 at page 66.

At page 94:

In our earlier discussion regarding the Joint Proposal, we adopted elements of the Joint Proposal, including how the scheduling rights are to be incorporated into the FAR open season process. Four scenarios for how the scheduling rights will be converted into a FAR were listed. SDG&E and SoCalGas shall incorporate those four scenarios into the appropriate steps of the FAR system. Any FAR awarded to a party funding only a displacement capacity expansion under these four scenarios will be required to pay the five cents per Dth reservation charge.

At page 102:

Several parties suggest that the 15-year contract term in Step 3 be reduced. The contract terms that parties recommend range from two years to 20 years. SDG&E and SoCalGas agreed during the hearing that the contract term in Step 3 should be reduced. The utilities, however, point out that the costs of any new or expanded capacity needs to be fully amortized over the shorter term. We shall permit the contract term in Step 3 to range from three years to 2015 years. The minimum of a three-year contract term will make Step 3 consistent with the contract term in Step 1 and Step 2.

At page 103:

The parties spent a lot of time in this proceeding litigating the issue of displacement capacity and expansion capacity. As discussed earlier, we have incorporated elements of the Joint Proposal into the FAR system which address displacement and expansion capacity. Instead of adopting In addressing the element in the Joint Proposal that a requesting party can choose whether to build on an expansion capacity or displacement capacity basis, we have decided that in the case where the funding party is not willing to fund expansion capacity, the Commission may direct the utility, as clarified above, so to use the FAR proposal's approach that the parties bid in Step 3 for new receipt point capacity or for expanding existing capacity on an expansion basis. That leaves the door open for the Commission to decide whether facilities should be constructed on a displacement or expansion capacity basis.

⁵⁹ The clarification we refer to is dividing the Step 3 bid into two separate bids.

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TURN's Proposed Changes to the PD's Conclusions of Law

14. To the extent the costs of implementing the pooling service are not included in the FAR system implementation costs, SDG&E and SoCalGas should be allowed to track and recover from all ratepayers the reasonable costs of implementing this service up to a maximum of \$2 million.

TURN's Proposed Changes to the PD's Ordering Paragraphs

5. SDG&E and SoCalGas are authorized to establish the FAR Memorandum Account to track and recover the costs of implementing the FAR system and the other services.

a. To the extent the costs of the pooling service are not included in the estimate of the FAR system implementation costs, SDG&E and SoCalGas are authorized to track and recover from all ratepayers the reasonable costs of implementing the pooling service, up to a maximum of \$2 million.